

Message Text

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11/66

ACTION NEA-10

INFO OCT-01 EUR-12 EA-07 ISO-00 EB-07 AID-05 OMB-01 TRSE-00

PA-01 PRS-01 USIA-06 CIAE-00 INR-07 NSAE-00 CIEP-01

SS-15 NSC-05 /079 W

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R 311430Z DEC 75

FM AMEMBASSY CAIRO

TO SECSTATE WASHDC 8911

INFO AMEMBASSY BONN

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY LONDON

AMEMBASSY MOSCOW

AMEMBASSY PARIS

AMEMBASSY TEHRAN

AMEMBASSY TOKYO

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C O R R E C T E D C O P Y (PARAS 3 AND 4)

E.O. 11652: N/A

TAGS: USEGJC, EFIN, EAID, EGEN

SUBJECT: ASSEMBLY RECOMMENDS FEWER SUBSIDIES

REF: CAIRO 13173

1. IN A SURPRISE MOVE DECEMBER 30, AT SAME TIME AS APPROVAL OF 1976 PLAN AND BUDGET (SEPTEL PEOPLES ASSEMBLY APPROVED REPORT OF PLAN AND BUDGET COMMITTEE RECOMMENDING REDUCTIONS IN SUBSIDIES FOR SOME CONSUMER GOODS. RECOMMENDATION IS ONLY THAT, UNLESS GOE DECIDES TO ACCEPT IT, BUT NEVERTHELESS REPRESENTS ANOTHER SIGN OF REJUVENATION OF ASSEMBLY, WHERE INTEREST IN MATTERS ECONOMIC IS BURGEONING.

2. PRESS OF DEC. 31 MISTAKENLY HEADLINES ABOLITION OF
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SUBSIDIES FOR SERIES OF COMMODITIES (SUGAR, COOKING OIL,

HIGH QUALITY FLOUR AND YARN) WHEREAS REDUCTION WOULD BE BETTER WORD. ABOVE GOODS ARE ONLY SMALL PORTION OF THOSE SUBSIDIZED AND OF GREATER INTEREST, ASSEMBLY HAS ONLY RECOMMENDED REMOVAL OF SUBSIDIES ON THOSE PORTIONS OF COMMODITIES THAT ARE RATIONED.

3. SUGAR, FOR EXAMPLE, SELLS AT TWO-TIER PRICE (BOTH SUBSIDIZED): A LOW PRICE OF LE 0.10 PER KILO FOR RATIONED QUANTITIES, AND A HIGHER PRICE OF LE 0.25 FOR UNRATIONED OR "FREE" QUANTITIES. ASSEMBLY WANTS SUBSIDY REMOVED FOR SECOND CATEGORY SALES ONLY. HIGH QUALITY FLOUR IS NOT RATIONED AT ALL, BUT PRICE REFLECTS SUBSIDY ON WHEAT FROM WHICH IT IS MADE AND COMPARABLE SUBSIDY ON FLOUR IMPORTS THEMSELVES, TO KEEP CONSISTENT PRICING SYSTEM. (FLOUR IMPORTS HAVE INCREASED MARKEDLY OVER PAST 2 YEARS, FROM ABOUT 300,000 TONS TO OVER 700,000, A SOURCE OF SOME CONCERN TO PARTS OF GOE AND MANY OBSERVERS.

4. ASSEMBLY RECOMMENDATION INCLUDES REQUEST THAT 30 PERCENT OF MONEY SAVED THROUGH REDUCTION IN TOTAL SUBSIDY EXPENSES, CURRENTLY AT OVER LE600 MILLION PER YEAR, BE USED TO INCREASE INCOMES OF PUBLIC SECTOR EMPLOYEES TO ENABLE THEM TO MEET RISING COSTS OF LIVING, AND THAT UNSPECIFIED ADDITIONAL PORTION BE USED TO FLOOD MARKET WITH OTHER BASIC COMMODITIES IN ORDER HOLD DOWN PRICES.

5. COMMENT. IT IS NOT VERY LIKELY THAT GOE WIL ACCEDE TO ASSEMBLY'S RECOMMENDATION, SINCE REDUCTION IN SUBSIDIES, WHICH WAS ONE OF MAJOR REQUIREMENTS ATTACHED TO OBTAINING SUBSTANTIAL IMF ASSISTANCE, WAS REJECTED WHEN THERE WAS A \$200 MILLION PLUS CHECK ATTACHED TO IT. NEVERTHELESS, GOE HAS CONSISTENTLY MAINTAINED THAT PEOPLE WOULD NOT ACCEPT HIGHER PRICES AND THAT SUBSIDIES HAD TO BE MAINTAINED FOR POLITICAL REASONS. NOW THAT POSITION WILL SQUARE WITH FACT THAT VOICE OF PEOPLE, RAD ASSEMBLY, HAS NOT SPOKEN OUT IN FAVOR OF REDUCTION IS NOT CLEAR, BUT WE ARE SURE GOE WILL FIND A WAY. EILTS

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